

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PA-01 USIA-06 PRS-01 INT-05

GSA-01 EUR-12 NEA-09 /107 W  
----- 023687

R 240930Z JAN 75

FM AMEMBASSY JAKARTA  
TO SECSTATE WASHDC 6284  
INFO AMEMBSSY TOKYO  
AMCONSUL MEDAN  
AMCONSUL SURABAYA

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E.O. 11652: N/A

TAGS: EIND ENRG EMIN ID

SUBJ: MORE ON THE ASAHAN ALUMINUM SMELTER MASTER AGREEMENT

RF: JAKARTA 15411 B. JAKARTA 8625

1. SUMMARY. INTERVIEW JANUARY 22 WITH IR. SUHUD,  
PRINCIPAL GOI NEGOTIATOR ON ASAHAN PROJECT,  
PROVIDED OPPORTUNITY TO UPDATE, CONFIRM, AND CLARIFY  
INFO PROVIDED REFTELS. END SUMMARY.

2. PROJECT COST ESTIMATED AT \$900 MILLION, OF WHICH  
85 PERCENT DEBT, 15 PERCENT EQUITY. INDONESIANS  
WILL HOLD 22.5 PERCENT OF EQUITY WITH REMAINDER  
DIVIDED AMONG MEMBERS JAPANESE ALUMINUM GROUP.  
ACCORDING TO SUHUD INDONESIAN EQUITY CONTRIBUTION  
WILL COME DUE IMMEDIATELY AS THE JAPANESE PAY IN  
THEIRS ON DATE YET UNDETERMINED BUT PRESUMABLY RELATED  
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CONFIRMATION GOJ FINANCING.

3. HE CONFIRMED JAPANESE HAD INSISTED THAT CONTRACT FORMULA PROVIDE FOR 9-10 PERCENT YELD ON EQUITY. (SUHUD REPORTED SEEMING LACK OF UNANIMITY AMONG JAPANESE ON THIS POINT WITH NIPPON LIGHT METAL TAKING A HARDER LINE AND EVEN THREATENING WITHDRAWAL FROM CONSORTIUM. JAPANESE EXPECTATIONS, HE EXPLAINED, ARE BASED ON CONSORTIUMS OF SIMILAR SORT IN BOLIVIA, NEW ZEALAND, VENEZUELA, GHANA.) PROFIT OBJECTIVES ACHIEVED BY REDUCING PROJECT'S INCOME TAX OBLIGATION TO 35 PERCENT FOR PROJECT'S FIRST TEN YEARS, AFTER WHICH NORMAL 45 PERCENT RATES PREVAIL. THIS PROVISION HE SAID IS COMPARABLE WITH INVESTMENT INCENTIVE PATTERN IN "SECOND GENERATION" MINING CONTRACT OF WORK. NEGOTIATIONS ALSO FACED ANOTHER PROBLEM IN COMMON WITH MINING SECTOR CONTRACTS OF WORK: THAT OF SURRENDER EXPORT PROCEEDS. COMPROMISE REACHED IN THIS CASE IS THAT ASAHAN INVESTORS SURRENDER 60 PERCENT (RATHER THAN TOTALITY) OF EXPORT PROCEEDS.

4. PRINCIPAL PROBLEM STILL UNRESOLVED IN MASTER AGREEMENT, PER SUHUD, IS THAT OF TRANSFER PRICE. NEITHER JAPANESE NOR INDONESIANS HAD SUFFICIENT CONFIDENCE TO TRY NEGOTIATING AT THIS STAGE AS BOTH AWARE COMPLEXITIES INVOLVED IN MARKET DOMINATED BY MULTINATIONALS. IT WAS AGREED TO POSTPONE FURTHER DISCUSSION FOR TIME BEING. DECISION BY MINING DEPARTMENT IS ALSO PENDING AS TO WHETHER PLANT'S OUTPUT IS FINAL PRODUCT, OR RAW MATERIAL AND HENCE SUBJECT TO EXPORT TAX. OTHER ISSUES TO WHICH PRESS REPORTS HAVE ALLUDED ARE ACTUALLY SETTLED IN PRINCIPLE, ACCORDING TO SUHUD.

5. WHILE PRESS HAS REPORTED MASTER AGREEMENT EMBODIES GUARANTEE OF PREFERENCES TO LOCAL CONTRACTORS WHO EVENTUALLY BID ON ASAHAN JOBS, SUHUD POINTS OUT GOI ACTUALLY HAS SOME HOMEWORK TO DO, BECAUSE OF EXISTING TAX LAWS, IF THESE PREFERENCES ARE TO BE EFFECTIVE. AT PRESENT SALES TAX IS PAYABLE ON AMOUNTS SUBCONTRACTED, LIMITED OFFICIAL USE

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WHILE NO TAX DUE ON SAME WORK IF PERFORMED BY PRINCIPAL CONTRACTOR.

6. REGARDING OUTLOOK FOR REALIZATION OF OFFICIAL JAPANESE FINANCIAL SUPPORT, SUHUD SAID INDONESIANS WOULD MAKE NO MOVE THAT MIGHT EMBARRASS OR IMPEDE CONSORTIUM IN SEEKING GOJ COOPERATION: THERE WOULD BE NO OBVIOUS CASTING ABOUT FOR ALTERNATIVE FINANCING

IN THIS SIX-MONTH GRACE PERIOD. HOWEVER, INDONESIANS  
CANNOT AFFORD TO COUNT ON THE JAPANESE ENTIRELY.  
IN CONSEQUENCE THEY CAN UNDERTAKE NO OBLIGATIONS  
CONTINGENT ON PROJECT'S DEVELOPMENT AS PLANNED.  
THEY ARE GIVING SOME THOUGHT TO OTHER OPTIONS--"NOT NECESSARILY  
THE RUSSIANS", SAID SUHUD IN OBVIOUS REFERENCE TO FOREIGN  
MINISTER MALIK'S SEVERAL HINTS IN THIS DIRECTION.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ALUMINUM, INVESTMENTS, INDUSTRIAL PLANTS, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975JAKART01047  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** UPGRADED TO CONFIDENTIAL PER 9/10/77 MEMO FROM EA - ROBERT B. OAKLEY  
**Executive Order:** GS  
**Errors:** N/A  
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**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 JUL 2003 by BoyleJA>; APPROVED <15 JUL 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MORE ON THE ASAHAN ALUMINUM SMELTER MASTER AGREEMENT  
**TAGS:** EIND, ENRG, EMIN, ID, JA, ASAHAN  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006